

INDEPENDENT ACCOUNTANTS' REPORT  
ON APPLYING AGREED-UPON PROCEDURES

*SOUTH CAROLINA DEPARTMENT OF REVENUE*

For The Year Ended June 30, 2004

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200  
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THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

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June 6, 2005

The Honorable Mark Sanford, Governor  
and  
Mr. Burnet R. Maybank, III, Director  
South Carolina Department of Revenue  
Columbia, South Carolina

This report resulting from the application of certain agreed-upon procedures to certain accounting records of the South Carolina Department of Revenue for the fiscal year ended June 30, 2004, was issued by The Hobbs Group, P.A., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

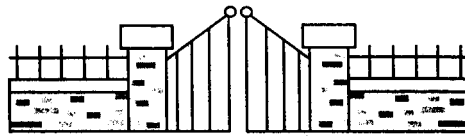
A handwritten signature in black ink, reading "Tom Wagner", with a stylized flourish at the end.

Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/trb

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COLUMBIA, SOUTH CAROLINA  
June 30, 2004

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**INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON  
PROCEDURES**

Mr. Thomas L. Wagner, Jr., CPA  
State Auditor  
South Carolina Department of Revenue  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Office of the State Auditor and management of South Carolina Department of Revenue (the "Agency"), solely to assist you in evaluating the performance of the Agency for the fiscal year ended June 30, 2004, in the areas addressed. The Agency's management is responsible for its financial records, internal controls and compliance with State laws and regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We inspected selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the selected receipt transactions were adequate to detect errors and/or irregularities. We inspected selected recorded receipts to determine if these receipts were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement. We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law. We compared current year recorded revenues from sources other than State General Fund appropriations to those of the prior year and we used estimations and other procedures to evaluate the reasonableness of collected and recorded amounts by revenue account. We observed and evaluated the accountability and security over permits, licenses, and other documents issued for money.

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Mr. Thomas L. Wagner, Jr., CPA  
State Auditor  
South Carolina Department of Revenue

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

2. We inspected selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the South Carolina Department of Revenue, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations; and if internal controls over the selected disbursement transactions were adequate to detect errors and/or irregularities. We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement. We compared current year expenditures to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

3. We inspected selected recorded payroll disbursements to determine if the selected payroll transactions were properly described, classified and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirement; and internal controls over the selected payroll transactions were adequate to detect errors and/or irregularities. We inspected selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS. We inspected payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate. We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We compared current year payroll expenditures to those of the prior year; compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computed the percentage distribution of recorded fringe benefit expenditures by fund source and compared the computed distribution to the actual distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

Mr. Thomas L. Wagner, Jr., CPA  
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South Carolina Department of Revenue

4. We inspected selected recorded journal entries, operating transfers, and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate to detect errors and/or irregularities.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

5. We inspected selected entries and monthly totals in the subsidiary records of the Agency to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and the internal controls over the selected transactions were adequate to detect errors and/or irregularities.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

6. We obtained all monthly reconciliations prepared by the Agency for the year ended June 30, 2004, and inspected selected reconciliations of balances in the Agency's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amounts to the Agency's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Agency's accounting records and/or in STARS.

The reconciliations selected were chosen randomly. Our finding as a result of these procedures is presented in Review of Reconciliations in the Accountants' Comments section of this report.

7. We confirmed through inspection of payroll and non-payroll disbursement vouchers, cash receipts and other documents, inquiry of agency personnel and/or observation of agency personnel performing their assigned duties, the Agency's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 2004.

We found no exceptions as a result of the procedures.

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State Auditor  
South Carolina Department of Revenue

8. We obtained copies of all closing packages as of and for the year ended June 30, 2004, prepared by the Agency and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

9. We inquired of the Agency's management regarding federal assistance expended by the Agency for the year ended June 30, 2004. According to the management, the Agency did not receive or expend any federal funds for the year ending June 30, 2004.
10. There were no findings in the report for the year ended June 30, 2002, the last year for which an agreed-upon procedure report was issued for the South Carolina Department of Revenue.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Office of the State Auditor and management of the South Carolina Department of Revenue and is not intended to be and should not be used by anyone other than these specified parties.

*The Hobbs Group, P.A.*

The Hobbs Group, PA  
May 16, 2005

## ACCOUNTANTS' COMMENTS



## SECTION A – WEAKNESSES NOT CONSIDERED MATERIAL

The procedures agreed to by the agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

The condition described in this section has been identified as a weakness subject to correction or improvement but it is not considered a material weakness or violation of State Laws, Rules, or Regulations.

### Review of Reconciliations

During our procedures related to the Agency's monthly reconciliations it was discovered that two of the six tax revenue reconciliations were not prepared on a timely basis as defined by the Comptroller General's Office in the STARS Agency Users Manual.

Accounting tasks such as monthly reconciliations play a key role in proving the accuracy of accounting data and information included in the Agency's accounting records. Therefore, in order to provide more accurate and timely accounting information, we strongly recommend that the Agency establish more effective review and reconciliation policies and procedures as a customary part of the accounting process.

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State of South Carolina  
Department of Revenue  
301 Gervais Street, P.O. Box 125, Columbia, South Carolina 29214

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June 9, 2005

Mr. Thomas L. Wagner, Jr. CPA  
State Auditor  
1401 Main Street, Suite 1200  
Columbia, SC 29201

Dear Mr. Wagner:

This document is in response to the FY04 AUP audit performed by the Hobbs Group, PA for the SC Department of Revenue. More specifically, this document responds to the Accountants Comments, Section A: Weaknesses Not Considered Material, Review of Reconciliations.

We agree that monthly reconciliations play a key role in proving the accuracy of accounting data and information included in the agency's accounting records. With that, the Department of Revenue makes every effort to reconcile each of the tax revenue accounts in a timely manner as recommended by the STARS manual and successfully completes reconciliations of the tax revenue accounts each and every month. The Accountant assigned to reconciliations begins the reconciliation process as soon as the monthly reports are received from the Comptroller General's Office. However, the number of tax revenue object codes/accounts, the volume of transactions and the significant dollar amounts involved with tax revenue collections makes the current manual reconciliation process extremely time consuming.

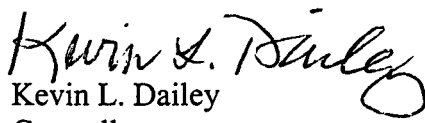
It was determined that two of the six reconciliations reviewed by the Hobbs Group were not completed timely. One of those reconciliations was July 2003 (Fiscal Month 01); the other was December 2003 (Fiscal Month 06). During July (FM01), the entire Financial Management staff is involved with many financial reporting issues pertaining to fiscal year-end that reconciling July of the new fiscal year is not the highest priority. The Comptroller General releases the July (FM01) reports and final reports for FM13 of the prior fiscal year on the same date, usually in mid-August. At that point, our first priority becomes reconciling our agency records with the final FM13 Comptroller General's records from the prior year. In addition, the accountant assigned to reconciliations is busy in July and August working to complete two tax revenue closing packages that are due to the Comptroller General's Office before the end of August. The reconciliation for July is completed as soon as we have finished all of our accounting and financial reporting requirements related to the previous fiscal year.

During the upcoming fiscal year, our office will ask the Comptroller General's Office to provide us with a monthly file of all our tax revenue transactions to help us and our IT staff automate the

voluminous reconciliation process. This should help reduce the time required to complete reconciliations.

Please do not hesitate to contact us if you need additional information.

Sincerely,

  
Kevin L. Dailey  
Controller

  
D. John Taylor  
Chief Financial Officer